RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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DEFLATIONARY FORCES: El Nino (a warming effect produced by warm ocean currents) has played havoc with many crops in the Southern Hemisphere. Listen to this: US feed grain reserves are at a 16-year low. US corn reserves are down 30% from last year and are at a 16-year low. US wheat reserves are down 56% from last year and are at their lowest level in 45 years. World wheat reserves are at their second lowest level in 19 years. Yet prices have been laggard, sluggish.

If the above had occurred in the 1970s, grain prices would be going through the roof. My conclusion: the world is in the grip of very strong deflationary forces. The Fed knows it, and they are trying "tooth and nail" to re-inflate the US economy. Will it work? We'll see (above statistics courtesy of *Commodity Information Systems,* 211 N. Robinson, Okla. City, OK 73102).

BONDS: With the inflation rate (according to Washington) below 3%, the long Treasury bond is now selling at a real inflation-adjusted yield (i.e., bond yield minus the inflation rate) of about 5.5%. Says leading economist Lacy Hunt of Carroll McEntee & McGinley, "The sharp runup in real long bond yields is particularly worrisome when you remember that real yields below 2.5% fostered recovery in five of the last six recessions." Russell comment: Huge federal deficits, chronic government borrowing, and a perceived pickup in the economy have pushed long T-bond yields to the 8% level. Oh yes, is anyone still claiming that "deficits don't matter?"

THE PICTURE: The silent struggle continues. From a value standpoint, the stock market has been out in "spaceville." It's been selling higher than a kite. Up to recently, market action has mocked the outrageously low yields now seen in almost all the major averages and indice. (Note: at the recent February high the NASDAQ Composite was selling at a surreal 43 times earnings.) The overvalued phenomenon finds veteran observers asking themselves, "How long can this area of super-overvaluation last? How long can this wild speculation go on?"

When a great party is in progress and the participants are loving it, it's exceedingly difficult to predict at what point the fun will end. Nevertheless, market action at the current Wall Street party has been growing sloppier. For instance, follow these sequences: the interest-sensitive D-J Utility Average topped out on December 31. The OTC Composite, the AMEX, the Russell 2000 and the NASDAQ Market Value Index all hit their highs on February 12. The S&P 500, the NYSE Composite and the Wilshire 5000 recorded their highs on January 15. The D-J Transportation Average hit its high on February 20 at **1467.68.** And the most widely-watched average of them all, the D-J Industrial Average, recorded its high on March 3 at **3290.25.**

Since then weakness has crept in. On March 11, seemingly unnoticed, the following averages and indices hit NEW LOWS for 1992 -- the NYSE Industrials and Composite, the S&P Industrials and 500 Composite. The very broad Wilshire 5000 also hit a 1992 low. Perhaps more ominous, the Japanese Nikkei 225 broke to a six-month low and the much broader Japanese Topix stock index fell to a six-year low.

My five-day index of daily new highs (NYSE) touched a 1991-92 peak of 255 on December 31. Since then it has dropped dramatically -- to a current level below 50.

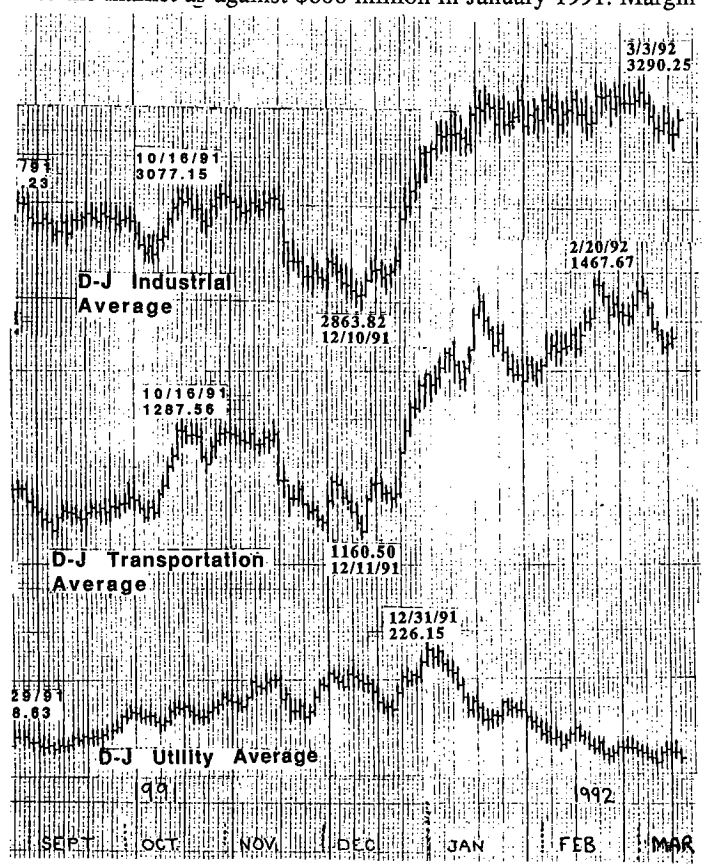
Mar. 6 DJIA 3221.60; PTI 3459; A-D Ratio -9.53
Mar. 13 DJIA 3235.91; PTI 3460; A-D Ratio -9.63
Dow Yield: 2.84%; Dow Price/Earnings: 57.3
Dow 200-day MA: 3052; Dow 30-day MA: 3254
Dow Times Book Value: 2.43; PTI 89-day MA: 3432
Percentage of Undervalued Blue-chips: 8%

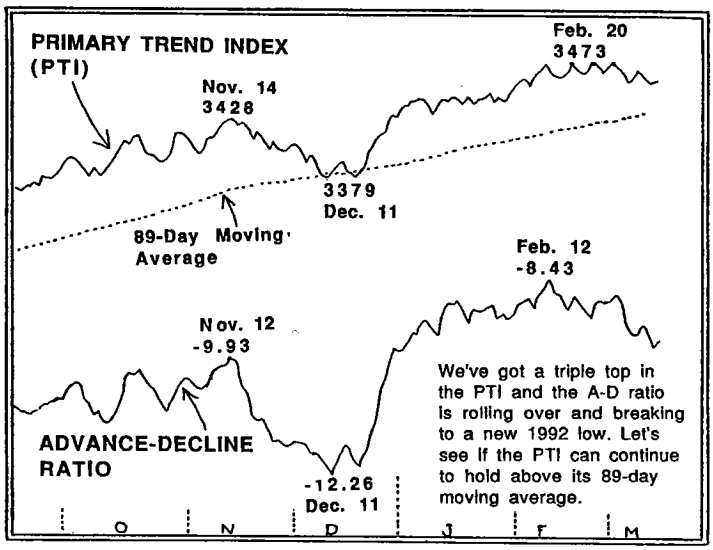
What to look for: Despite all the Fed's re-inflation efforts, the deflationary forces are surfacing, and it's a bit frightening (we can see those forces via the gold action). As for the stock market, I'm watching the downside. I think **3200** on the Dow is an important downside level, and so far that level has not been violated. The January 29 low of **1348.65** for the D-J Transportation Average is also very important. But keep this in mind: even if the Dow falls well below 3200, the price structure will remain intact unless the Transports confirm by violating 1348.65.

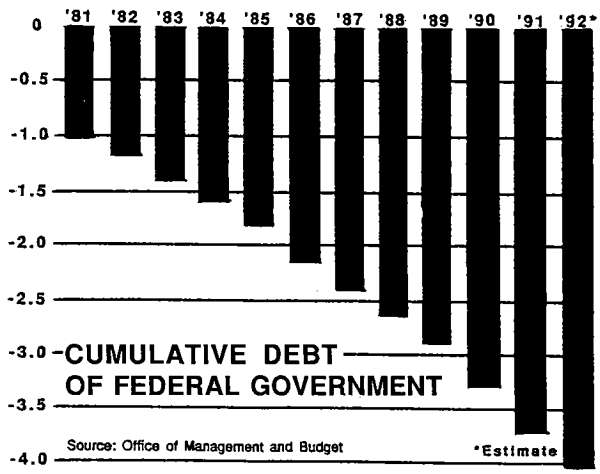
My Primary Trend Index (PTI) recorded its high of 3473 three times -- on February 20, February 26 and March 3. The PTI couldn't get above that figure (see page 2 chart), and it then turned down. However, the PTI is holding above its 89-day moving average. I grade the PTI as bullish unless or until it breaks decisively below its 89-day moving average.

Meanwhile, the advance-decline ratio recorded its high of minus 8.43 over a month ago on February 12. Since then it has been sliding off, but the decline has been mild so far. The A-D ratio is a reasonably good proxy for the entire market.

COMMENTS: Confidence and public participation in this market are breathtaking. In January 1992 the public poured $6.7 billion into the market as against $600 million in January 1991. Margin







accounts were up a whopping $9 billion in January 1992 from January 1991. Purchase of stock mutual funds in December and January totaled $14 billion, up from $831 million the year before.

Initial public offerings? The public gobbled up $4.6 billion in IPOs in 87 companies during the first two months of 1992, up form $870 million in 11 companies a year earlier. Writes *Market Logic* in their latest report (Ft. Lauderdale, FL 33306), "During the last month and a half new common stock offerings have hit the market at better than a $150 billion annual rate, twice last year's total -- and *that* was a record. New stock offerings currently equal 2% of GNP on our 20-week moving average, also a record high."

The frenzy to buy stocks has spooked the professionals. Many say they have never seen anything like it. I can tell you first hand that financial printers are snowed under, they are working 24 hours a day. And law firms who handle IPOs, mergers and "deals" are turning away business that they simply can't handle. It's wild and it's wooly -- and I can only conclude that the pressure in the stock market boiler is building to some sort of climax.

There are periods in history when the public's confidence in equities becomes wild, unexplainable, overwhelming. Why? How? Nobody really knows. But that confidence is here now, believe me it is. And it transcends all reason.

WHAT HAS THE STOCK MARKET BEEN DISCOUNTING? The stock market is run by men, and it is moved up or down by the collective minds of men. Sigmund Freud taught us that we possess a conscious mind and an unconscious mind. The conscious mind is the one we are in touch with. For instance, if I ask you what you are thinking about at this moment, you would immediately be able to tell me. But there is also an unconscious mind, a mind that we are not in touch with. And it is often the unconscious mind that rules our actions.

Few are aware of it, but there is an unseen struggle going on between the conscious mind and the unconscious mind. Frederick Perls, the great psychiatrist, termed the conscious mind the top dog and the unconscious mind the bottom dog. The top dog is a bully, and it says things like "You should" or "This is right" or "Let's do this now." The bottom dog is very sly and he gets around the top dog by saying things like "the check's in the mail" or "I'll do it a little later" or "I'll take just one more tiny drink" or "please don't be too hard on me."

If the conscious mind dominates an individual, we may get a saint or a tough general or a politician dictator or a strict father. If the unconscious mind dominates, we might get an artist or an actor or a mystic or a very intuitive physician -- or we might get a criminal (in the case of criminals their unconscious mind almost always rules their actions).

I view the stock market in much the same way. Let's take the current market. The Dow is up in the 3200s, and the obvious (or conscious) explanation is that the end of the recession is in sight, and stocks are simply up at these heights because they are discounting better times to come. In other words, the conscious mind of the market deals with the obvious and the rational and the visible.

But the obvious is seldom what moves the market. Or as Joe Granville puts it, "If it's obvious, it's obviously wrong." Again referring to the current market, what if there's something else behind today's high-priced, overvalued market? What if "an upturn in the economy" isn't the answer?

How about this as a possible explanation. We know that the US government is running deficits of over $1 billion a day. We know that the Federal debt will be around $4 trillion by the end of this year (see page 2 chart).

We know that this debt can never and will never be paid off. We also know that the US will try to inflate this debt away. The government's policy of deficits and inflation has resulted in an extended, silent crash in the purchasing power of the dollar. The 1940's dollar will buy roughly 11 cents worth of goods today.

And I ask myself, isn't it possible that the great, collective unconscious of the stock market is thinking as follows: "The US government is creating debt at an unbelievable pace. From the long-term viewpoint, the dollar is being systematically destroyed. The fact is that we could reach the point where first foreigners and then even Americans would refuse to accept dollars. They'll want hard assets, assets that will keep pace with inflation.

"And aren't stocks actually certificates of ownership in factories, stores, biotech companies, natural resource companies, etc? Don't stocks give us part ownership in companies? And companies can increase profits, raise dividends and prices and thereby adjust to inflation. Furthermore, companies can raise the price of their products (as they have done since WWII). Thus, in view of the debts, the stock market is really a safer place for our money than cash or bonds.

"Let me put it this way," says the unconscious of the market, "in view of the debt piling up in this nation -- ten years from now won't we be better off in stocks than we would be in cash or cash equivalents?"

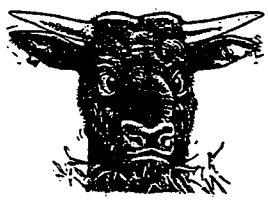
At any rate, that's a thesis that's been running through my mind. But wait, let's suppose this thesis is correct; let's suppose that this is the real reason why stocks are selling at sky-high prices. Is the thesis valid, does it make sense? And here's where doubt enters the picture.

If inflation returns, if people sense the return of galloping inflation, then bonds will collapse. And with the US' rotten history on inflation, bond buyers will demand a big premium in yield for protection. The current 7.9% yield on the long bond tells us that

bond buyers don't believe what the government is telling us about inflation. The fact is that bond buyers want almost 8% yield on T-bonds during a recession -- as protection against future inflation.

Actually, I just went over my own personal bills as well as my corporate bills. And I can tell you that my cost of doing business and my own daily living expenses are telling me that inflation is nearer 10% than the 2% or 3% that the government tells me it is. Almost everything I do or buy costs more, and I don't care what the official government statistics say (did you know that the government inflation indices don't take into consideration state and local taxes or the sky-high premiums on health insurance?).

INVESTMENT POSITION: According to Dow Theory a trend remains in force until PROVED otherwise. The last market trend was confirmed as bullish. We've received no countermanding Dow Theory bear signals yet, and my PTI is still above its 89-day moving average -- so the bull stays in the box.



But with stocks stalled out in this "high-altitude" trading range, I believe the trick here is to avoid losing money.

It appears that both Japan and Europe are sinking into recession, and this puts a question mark on most foreign securities. The two hot markets have been Singapore and Hong Kong, but now even these markets seem to be cooling off (perhaps frightened by the slumping Tokyo market).

At this point I feel that the safest and most intelligent place to be is in short-term dollar denominated items, with the safest of these being T-bills and near-term T-notes (say up to two years out).

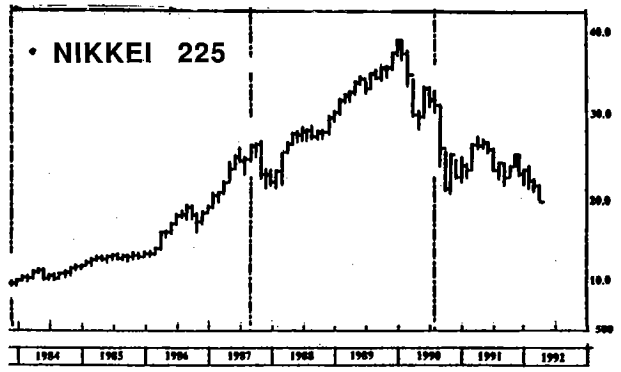
Humphrey Neil, who wrote the book on the theory of contrary opinion, said this -- in order to arrive at a valid contrary opinion, you first have to have an opinion to go contrary to --in other words, an opinion that is almost universally accepted.

A current widely-held opinion is that the US is coming out of recession and that at worst the stock market may be in for a mild correction. Contrary opinions, it seems to me, would be that this recession will hang around a good deal longer than expected, and that the stock market will give us something more severe than just a mild correction. Another literally universally-held opinion is that gold is going nowhere, but if it is going anywhere that anywhere is down. Which makes for an interesting contrary opinion on the yellow metal.

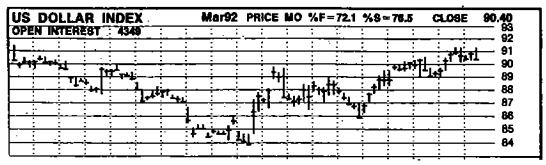
The hottest area of the world, economically speaking, is Southern Asia including Singapore, Hong Kong, Taiwan and most definitely the south coast of China. China appears to be split. The coast area is booming and capitalism is running rampant there while interior China is still in the dark ages. Weekly wages on the China coast run about $6 a week, and there's no Social Security, medical or anything else. The whole China area is super-competitive, and the aging hard-line Chinese leaders appear to be leaving the coast alone to pursue its booming ways. If nothing else, the Chinese brass like that hard currency coming in, and the coast businessmen are surely bringing it in. By the way, the Chinese (unlike the Russians) have always been shrewd businessmen and hard workers.

With all the above in mind, I recently bought three stocks: China Light and Power (over-the-counter at around 3.68). Singapore Fund (a closed end fund listed on the NYSE at around 11) and Hong Kong Telecommunications (NYSE 33). All three, I feel, offer a good participation in this rapidly growing part of the world. If the next decade belongs to Asia (and it easily could), these three stocks offer a most interesting package (By the way, if you buy Hong Kong Tel you have a partner in the Chinese government; they own 20% of the company).

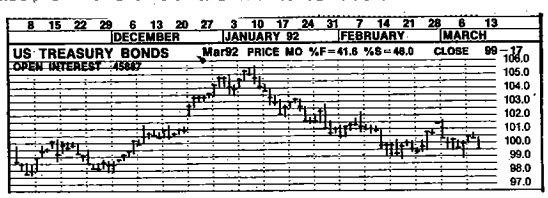
CHARTS, COMMENTS: The whole investment world is watching the Nikkei Index. The Nikkei is down roughly 48% from its all-time high of 39,000 in 1989, and the huge loss in stock valuations has put pressure on the Japanese banks. The critical level on the Nikkei continues to be 20,000. The Index has been flirting with that level ever since October 1991. If it breaks it, watch out.



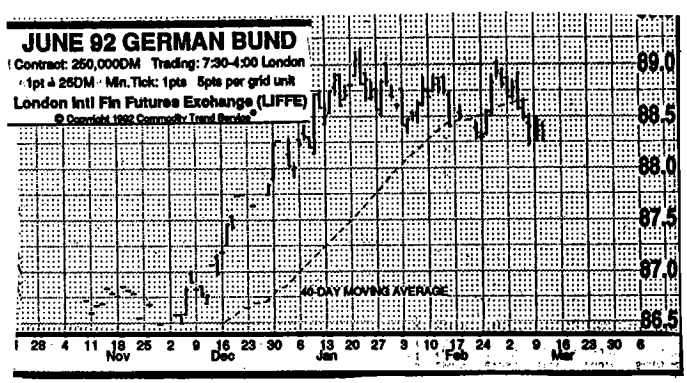
The Dollar Index has now broken decisively out of its "head-and-shoulders" bottom pattern. Aside from the dollar being "cheap" on a purchasing-power parity basis, current dollar strength would seem to be telling us that the Fed has done about as much as it's going to do as far as lowering rates. On the other hand, the Germans and Japanese might be on the verge of lowering their own rates. Furthermore, it would appear that the US economy is now doing a bit better while the German and Japanese economies are sliding into recession. Since international money tends to move towards the relatively strong economies, the dollar could be on the verge of having its day in the sun.



This looks like a major top on the bonds. After surging to 105.4 (March contract) in mid-January, the bonds broke below 99, then rallied. Note the bonds bouncing back to their 40-day moving average, but the MA has now turned down. At 98 on the March contract the long Treasury bond is pushing over the critical 8% yield level. Today's stock market is extremely sensitive to interest rates, maybe as sensitive as any market I've ever seen. One reason for that is the massive amount of debt in the US. With total debt of $15-16 billion outstanding, any rise in interest rates involves increased billions of dollars in interest costs.



Over the past few months every analyst and advisory has been saying, "Buy German bonds." This daily chart tracks the June '92 German Bund (bond). As you can see, the Bund hit its high in



mid-January and has been moving sideways to down ever since. No money made here (unless you bought the Bund at its low of 80, which was recorded back in February 1990).

Nikkei chart courtesy of *Long Term Technical Trends,* PO Box 6436, Boston, MA 02114. Dollar and Bond chart courtesy of *Investor's Business Daily* (by the way, their circulation has now boomed to 145,000 daily). German Bund chart courtesy of *Commodity Trend Service,* PO Box 32309, Palm Beach Gardens, FL 33420.

NOTES & QUOTES: The panicking Fed is going ALL OUT in its effort to re-inflate the US economy. Total bank reserves, the raw material of the money supply, rose at a compound rate (gasp) of 57.2% in February. Says H. Erich Heilnemann of Wall Street's Ladenburg, Thalmann, this is "the latest sign that the Federal Reserve's easy money policy is out of control."

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Padding: The pentagon's latest nutty idea is this: the US via its military should police the entire world. Our leaders "must maintain the mechanism for deterring potential competitors from even aspiring to a larger regional or global role," according to a front page article in the *NY Times.* To do this we must spend $1.2 trillion on the military over the next five years. What's happening is that the Pentagon is trying desperately to keep itself fat and intact. And the politicians have their own reasons for keeping military spending sky-high. They are afraid that massive military cutbacks will result in job losses in their respective districts, and that will cost them votes. Result: look for stubborn resistance out of Washington regarding any major cutback in defense.

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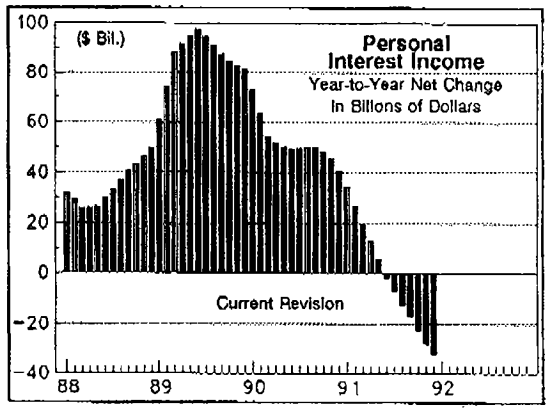
It's obviously going to be Clinton vs. Bush, and the best comment was probably penned by columnist George Will: "Bush is probably the most negative campaigner in history. The more he campaigns, the more his own negatives rise. His best strategy would be to stay in Bermuda until November, emerging only to wage short wars against Third World miscreants. Much will change between now and November, but today a reasonable wager would be that Election Day will see another reduction in voter turnout. Millions of people may choose not to choose between a Democratic nominee they do not quite trust, and a failed President they no longer respect."

Russell comment: Come on Ross Perot, it's not too late, and I think you could win. I called Perot's office (Perot Group, 12377 Merit Drive, Dallas, TX 75251) and was told that yes, Perot said that he would run if enough people wrote him in on the ballots. There would have to be a groundswell of Perot fans working their tails off. If you're worried, as I am -- write to Perot.

* *

One of the worst problems that President Herbert Hoover faced was a lack of reliable information on the economy. He just didn't know what was happening. Consequently, Hoover underwrote the formation of *Sindlinger & Co.* in the hope that no future president would ever have to go through the ordeal that he suffered during the early part of the Great Depression.

Sindlinger does its own original research via specialized telephone communication with thousands of people across the nation. To put it bluntly, Sindlinger most definitely does not agree with the majority of economists and their consensus opinion regarding what is happening in the US today. Sindlinger reports that his "Household Liquidity indicator is the lowest in 36 years." He also reports that "fully 24 states are currently in true depression, not recession." In his current report (which I receive by FAX) Sindlinger says, "What we find unusual is that Greenspan, who understands statistics as well as he doesn't understand consumers, has paid little attention to the government's personal interest and income data (see chart). He should read his mail." Sindlinger states that the slide has continued through December (the latest reporting month), and that we now see a year-to-year change of minus $32.2 billion. Sindlinger states that "our data shows that the slide isn't over, and the year-to-year net change in personal interest income should fall by minus $100 billion this summer" [chart by Sindlinger, (215) 565-0247].



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The government's official unemployment figures are also a bit deceptive. Uncle Sam shows unemployment at 7.3%, which, in terms of bodies means that 8.9 million Americans are currently unemployed. HOWEVER, to those 8.9 million add 6.7 million part-timers who would like to work full time. And also add 1.1 million who are discouraged and have stopped looking for jobs. So according to the Bureau of Labor Statistics, the real unemployment figure is 10.4%.

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One of the hottest areas for retailing is the gay consumer. Why? Money. A Chicago market research company, *Overlooked Opinions,* recently released a demographic survey that showed that gay men had an average household income of $51,325 while gay women averaged $45,927, compared with the national average of $36,520. The survey found that gays tend to be more affluent, and better educated; about 60% have college degrees compared with 20% for the general population. This compares favorably with a similar survey done by *Simmons Market Research* in NYC. Surveys also show that gays are avid readers and that they tend to buy the products that are friendly to them. Best guess: there are 25 to 40 million gays in America. Russell comment: when prejudice battles money -- money (ultimately) always wins.

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Oh, oh! Columnist William Safire is worried about a "springtime surprise" from Mr. Bush. What kind of surprise? (1) A new attack on Saddam Hussein, who is "the bone in Mr. Bush's throat", (2) an attack on Moammar Gaddhafi of Libya, who is "building mass-destruction facilities as he harbors his killer terrorists," (3) War with Kin Il Sung of N. Korea, who warns the CIA that he "is only months away from producing a nuclear bomb." Asks Safire, "Does it strain credulity to suggest that at least one of these three dictators is going to get zapped?" Russell answer: No, nothing would surprise me this year, nothing at all.

* *

I live 100 miles south of Hollywood, and I have a daughter who's an actress, so I tend to keep a close watch on America's best export -- films. I also also read daily *Variety,* and this is from the March 9 issue: "The one word that always characterized Hollywood was 'Optimism.' Dopey optimism, you might call it. Every waitress was about to become a movie star. Every car park owned the perfect script. The studios were all Dream Factories, and there was no shortage of dreams. Welcome to the new Hollywood, folks; it's fear and loathing time. Meet a friend for a drink and he'll tell you he's scared of losing his job. Grips and art directors and their brethren are trying to figure out why they seem to be making less money on each successive gig -- if they're working at all. Talk to production chiefs and they're all painfully refiguring their strategies, 'trying to fit the business part back into show business,' as Universal's Tom Pollock put it." Russell comment: Rising costs have put the big squeeze on film-making, and the new hero is the producer who can bring in a winner for $15 million or less. Latest disaster that has all Hollywood gasping, the $40 million down the drain "Radio Flyer."

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Most people don't realize it, but Russia now boasts a stock exchange with thousands of issues listed. And so does China. In fact, two weeks ago the Chinese stock market in Shenzhen opened its exchange to foreign investment for the first time, with the result that many Chinese shares boomed in price.

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Speaking of China, this is part of report by Lord Rees-Mogg who just visited Hong Kong (*Strategic Investments*, Agora Inc., 824 E. Baltimore St., Baltimore, MD 21202): "The main conclusion is that China is on the move economically. Hong Kong will become part of China and the border will be abolished in 1997, but Hong Kong is already both the outlet for the production of South China and the major channel for investment. The Hong Kong/South China area is probably now the fastest growing economic area in the world . . . The total growth rate of China is now averaging somewhere between 6% and 8%, but the growth rate of South China is much higher than that and has probably topped something like 20% at times."

* *

Japan is now quietly building its military forces. Japan is also forging closer ties with China. All of which worries Washington. The chief worry is that Japan (which will dominate) will form an alliance, linking her high-tech brilliance with China's cheap labor, raw resources and billion consumers. Bush, it is reported, wants to remain on friendly terms with Japan if it emerges as the world's second superpower (thereby replacing Russia).

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Although we in the US may be unaware of it, now that the cold war is over, things are not all smooth and quiet in the rest of the world. Here's how my ex-father-in-law, Max Lerner, describes the situation in a recent newspaper column: "The world is aflame -- from Northern Ireland to Spain's Basque country to Croatia, from the embattled Russian republics to the on-going Arab-Israeli hostilities, from the repressions of Algeria to the barbarisms of black-on-black antagonisms in South Africa, from the stony-hearted militarisms of Burma and China to the religious killings in India. The old passions, in a new and more sinister form, are wreaking devastation in the name of tribe, clan, caste, race and God."

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Social Security: If you're age 65 through 69 and your yearly income from a job or self-employment is over $10,200 you lose $1 of SS for every $3 of income. But once you're 70 you can earn any amount and not lose benefits. Wow, that's an incentive to live to be 90 or 100, isn't it?

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Clothes For Our Times: An ad in the *NY Times* boasts, "The Best Travel Clothing in the World." The firm manufactures clothes with a myriad of secret pockets or "Velcro-closed security pockets." States the ad, "Pity the pickpockets."

* *

With the Soviet menace now history, the US is taking a much tougher stand towards the numerous dictators of black Africa. It used to be, "We've got to stick with Mobuto because if we don't the Commies will take over." That threat is gone -- so enter the new tough policy.

Women in Africa have few if any rights, and even if a husband is infected with the HIV virus, he can demand sex with his wife. This plus the widespread prostitution has meant that the AIDS plague is running rampant across Africa. Furthermore, a huge percentage of the infections result from heterosexual contact. On top of the AIDS plague, Southern Africa (due to El Nino) is now suffering its worst drought of the century. The disastrous drought promises to set off one of the worst periods of famine (and thirst) in African history.

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Japan is in a slump. The collapse in the Tokyo stock market has lopped $2 trillion off Japanese stock values. This has put pressure on both banks and property values. The Japanese Economic Planning Agency, in a report two weeks ago, left that word "expansion" out of its monthly report for the first time in over four years. Now it's using the word "adjustment" instead. The report noted that industrial production in January was down 4% from a year ago. Two of Japan's top electronics firms, Matsushita and Hitachi, both reported lower earnings and a drop in world demand. Meanwhile, giant Sony reported its first annual loss ever.

In the meantime, Germany, the economic engine of Europe, is also moving into recession. Growth is slowing, inflation is creeping up, and unemployment in East Germany has enveloped almost 40% of the population. Germany's much-vaunted trade balance dropped from a surplus of $48 billion in 1990 to a deficit of $21 billion last year.

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There are no financial problems at the super-exec level in Hollywood. Screenland's big wheels just seem to play musical chairs, moving from one top job to the next and getting millions when they sell their stock or options. David Geffen made $550 million selling out to MCA, then got $710 million when Matsushita bought out MCA. Andy Vajna sold his Corolco stock for $106 million. Lew Wasserman sold out to Matsushita and got $327 million for his trouble. Michael Eisner got $32.6 million from the sale of some of his Disney stock, but he still owns $350 million of DIS. Barry Diller shocked the industry when he recently announced that he was leaving Fox, but he has over $70 million in stock, salary and profit participation. Bob Daly, Warner Bros. chairman sold stock worth $40 million, but he still heads the studio. So it seems as if the very top guys in Hollywood are in good shape. Even when they leave or get fired as studio heads, they cash in, make a fortune and go to another top job.

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Ah, Harvard in the East and Stanford in the West, an awful lot of hopefuls want to go to one or the other. Despite Stanford's tuition plus board boost to a whopping $22,700 a year, the University has a current 13,000 applicants for 2,700 undergraduate places. My wife, Faye, and her sister both went to Stanford so I get most of the Stanford publications (which are outstanding). Latest issue of the Stanford Observer advocates getting rid of the CIA completely. With the Soviets on our side now, who needs secrets?

Speaking of Stanford, when I went in to see a surgeon for a bypass operation back in 1987, I was obviously a bit worried. I entered Dr. Donald Buehler's office at Scripps Memorial Hospital, and while waiting I looked at his credentials on the wall. He went to Columbia for undergraduate and Stanford for his medical. Well, my father went to Columbia and Faye went to Stanford, so I took that as a good omen. I guess it was. The doc did a great job on me (quintuple bypass), I feel fine here in 1992, and am I superstitious? Nah.

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As everyone knows, there's a world glut of oil. This has brought the price of crude down in the mid-17 dollars a barrel. Natural gas is faring even worse. In the last three months, the price of natural gas fell to the lowest level in a decade, with gas following by a yearly average of 7% over the last 10 years. The slump in oil and gas is reulting in massive layoffs in the industry, and hundreds of smaller companies are going out of business. Since January 1982 it is estimated that 400,000 jobs have been lost in the petroleum industry. Meanwhile the larger, better financed companies are putting their money in overseas development where the findings are far more profitable.

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California, the growth leader for the US for decades, is now seeing corporations and divisions moving out of the state (example, Rohr here in San Diego is firing workers and at the same time opening a new plant in Arkansas). Shocking new figure: one in every seven residents of Los Angeles Country is on welfare. Since June 1988 welfare caseloads have increased 51%.

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Want to stay young? A new book, "Biomarkers, The Ten Determinants of Aging You Can Control" (Simon & Schuster) is based on ten years of research out of Tufts University in Boston. The main biomarkers include muscle mass and strength, metabolic rate, body fat percentage, aerobic capacity, blood-sugar tolerance, cholesterol, high-density lipoproteins, blood pressure, bone density and body temperature. The program consists of 16 weeks of weight lifting, aerobics and low-fat eating. Results, even among eighty-year olds, have been amazing. Say the authors, "Losing weight is the wrong goal. You should forget about your weight and instead concentrate on shedding fat and gaining muscle."

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Prices: I'm always fascinated by prices in NYC. Here are a few: High tea at the Pierre; choice of tea, scones, French pastries and finger sandwiches -- $16. Irish coffee at P.J. Clark's -- $4.50. I remember about ten years ago I was shocked by the price of a simple cup of coffee at the Plaza -- the price was $2. Now a $2 cup

of coffee at a luxury hotel would be a bargain. I can still find bargains in the West that I can't find in the East. For instance, I can get a good dinner here at George's Oceanview Terrace (fabulous view) for $10.50. I can go to an excellent "all you can eat" salad bar here in La Jolla for $5.89.

Whenever Faye and I go to NYC, we hit the noodle restaurants for lunch. For us, there's nothing like a big bowl of soup loaded with Chinese vegetables and noodles. Now the noodle concept is spreading over Manhattan with Ollie's, Tang Tangs, China Fun and Noodle Road dotting the landscape. I'm all for it. Noodles are cheap, high carbohydrate, nourishing, non-fat and satisfying. San Diego, with its big Asiatic population, is already well noodled. Give me a heaping bowl of steaming noodles for lunch (and a plate of semolina pasta for dinner) and I'm one happy fella. Pasta? What ever happened to spaghetti?

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I'm beginning to feel sorry for George Bush. First he's accused of being totally focused on foreign affairs and neglecting his own country. So he does a complete switch and concentrates on the home front and "jobs, jobs, jobs." Now Nixon comes along and announces that the US' help to Russia has been "pathetic." Furthermore, warns Nixon, if Bush doesn't start paying a lot more attention to foreign affairs, we're going to "lose Russia." What's a poor president to do? Aw, just concentrate on getting re-elected and everything will fall into place.

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In view of the new strength in the dollar, currency comparisons are particularly interesting. At this writing one US dollar equals 1.11 Canadian dollar. A year ago one US dollar equalled 1.08 Canadian dollars. Today one US dollar equals 1.22 Australian dollars, a year ago it was 1.18. One US dollar equals 5.44 French francs, a year ago it was 4.78 francs. One dollar equals 1.61 German marks, a year ago it was 1.42. One US dollar equals 1.45 Swiss francs, a year ago it was 1.22.

MORE FOREIGN NOTES: As I said, China may be run by hard-liners, but economically (under the leadership of Deng Xiaoping) it's turning increasingly to capitalism and free enterprise. In 1997 Hong Kong reverts to China. But Exxon just caste a vote for Hong Kong's future by pledging $7.74 billion to an upgrade program for three power companies operated by China Power & Light (Exxon owns 60% of the three power companies; China Power & Light own the other 40%). The three power companies provide 75% of the power for Hong Kong with additional operations on mainland China . . . In the meantime, Shanghai, a key city in China's booming south, is becoming an Asian financial center. Said its mayor, Huang Ju, two weeks ago, "Shanghai must 'break with convention and blaze new trails' to attract foreign investment." Translation: Shanghai is looking at booming Singapore and Hong Kong and wants to join the club.

Inflation in Germany rose to 4.3% in February. Germany is morbidly afraid of inflation, and 4.3% inflation suggests that the Bundesbank will keep interest rates high (thereby frustrating speculators in German Bunds (bonds) . . . Finland is about to join Sweden and Austria on what is called the "first train" of new applicants asking for membership in the European Community. Next in line will probably be the Norwegians, and by 1995 it is thought that all of the Nordic countries will be applying for membership in the EC. If so, this will represent a huge change for the Nordic nations, who, up to now, have felt aloof from Continental affairs while adhering to their belief in Scandinavian socialistic models.

Summary: the whole world from Latin America to China to Scandinavia to Mexico is going free enterprise. How did it happen? Russell opinion: communications, TV, films. The world saw how Americans lived and how the Russians survived, and they voted out Communism and socialism. As Emerson said, there's nothing as powerful as an IDEA whose time has come.

The Future: Look for increasingly fierce competition worldwide. For instance, with 1.25 billion Chinese starting to produce and work for wages of $6 a week (and less in the interior), free enterprise is not going to be a picnic.

LATE NOTES: Tokyo: During 1990 the Japanese Nikkei 225 broke below 20,000 intra-day, but it never closed below 20,000. Last week, on March 16, the Nikkei finally broke decisively below the 20,000 market, closing at **19,837.** There's no doubt about it -- Japan is in the throes of a primary bear market, and from its high the value of the Nikkei (closing last week at a five-year low) has been cut in half.

Is this an isolated event confined only to the land of the rising sun? It's hard for me to believe that. The Japanese market has led the world's markets on the upside for decades. The Japanese market was the first of the major markets to top out (see page 3 chart). Primary bull and bear markets tend to be international in scope. And with the Japanese market in a primary downtrend, that makes me wonder how the US market and the rest of the world's markets can be in bull trends.

As subscribers know, I have been pointing to the Tokyo market and warning about its action for months. Therefore, it will be vitally important to see what happens next. After all, with the Nikkei down 50% from its high , and with the US market just a few percentage points below its all-time high, we have a classic international divergence, a divergence more extreme than any I have seen before.

I said in my early January Letter that I was convinced of one thing -- that 1992 would be a year of surprises. I am still of that opinion. As I see it, the first surprise is the unexpected RISE in US long interest rates. The second surprise is the renewed crash in Tokyo. I might add that as I write this it appears that few people are taking the Tokyo collapse seriously. I have already heard many comments to the effect that "the crash is Japan's problem." We'll see.

US Market: The important downside levels continue to be **3200** for the Dow and **1348.65** (the January 29 low) for the D-J Transportation Average.

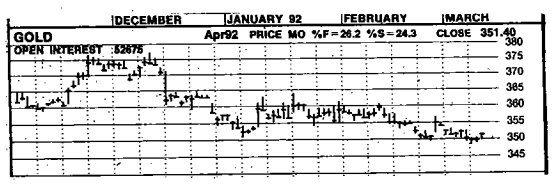
Meanwhile, on March 12 the advance-decline ratio wiped out all its gains for 1992. On the same day both the NYSE Composite and the S&P 500 Composite confirmed by breaking to new lows for 1992.

This is a strange and deceptive situation, and nothing at this point would surprise me. There is obviously a LOT of distribution going on here, and with the long bond yielding over 8%, seasoned investors are clearly worried.

On the latest reading the Dow is selling at 57.3 times earnings while yielding 2.84%. With total dividends of $91.74 and earnings of only $56.48, it is clear that it will take a forthcoming earnings explosion just to cover current dividends. Meanwhile the Dow is selling at 2.43 times book value while the S&P 100 Industrials are selling at a shocking 3.17 times book value.

GOLD: On March 13 gold broke under its 350 support level, and this was followed on March 16 by a further decline to the 345 (spot) level. I believe two factors are now weighing heavily on gold. The first is the deflationary pressure of massive debt, both US and worldwide. The second factor is the collapse of the Tokyo market, and the probability that Japanese interests are or will be selling gold to raise cash (cash needed to cover margin calls at the banks and other institutions).

The danger connected with a MAJOR stock market crashing (such as the Japanese market) is the danger of deflation. Therefore, I feel that deflation is the specter facing the world today. If the deflation spreads, becomes recognized, and becomes chronic, there will be an united effort on all the world's nations to re-inflate. At that time, gold will have its day (gold chart courtesy of *Investor's Business Daily*).



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